

CORRECTED FISCAL NOTE

SB 1781 - HB 2052

March 28, 2007

SUMMARY OF BILL: Levies an additional excise tax on moist snuff tobacco equal to 30 cents per ounce. Earmarks additional tobacco tax revenue to the Department of Agriculture.

ESTIMATED FISCAL IMPACT:

On March 12, 2007, we issued a fiscal note on this bill indicating an increase to state revenues of \$1,855,000, an increase to recurring state expenditures of \$1,140,000, and a one-time increase to state expenditures of \$24,000. Based on new information, the fiscal impact for this bill is estimated as follows:

(CORRECTED)

Increase State Revenues –

\$9,432,000 / Earmarked to Department of Agriculture
\$192,000 / General Fund
\$430,000 / Education Fund
\$2,000 / Department of Revenue
<u>\$6,000 / Sinking Fund</u>
\$10,062,000 – Total Increase

Increase State Expenditures - \$1,546,000 Recurring
\$24,000 One-Time

Increase Local Govt. Revenues – Net Impact - \$242,000

Assumptions:

- The current tobacco tax on non-cigarette tobacco products is 6.6% of the wholesale cost price.
- Total tobacco tax collections were \$124,872,300 for FY05-06.
- Cigarette tax collections for FY05-06 were approximately \$115,462,000.

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- Tobacco tax collections for all non-cigarette tobacco products for FY05-06 is estimated to be \$9,410,300 (\$124,872,300 total - \$115,462,000 for cigarettes = \$9,410,300).
- 50% (or \$4,705,150) of non-cigarette tobacco tax collections for FY05-06 were derived from the sale of moist snuff tobacco.
- Taxable wholesale sales for FY05-06 are estimated to be \$71,290,152 (\$4,705,150 estimated collections ÷ 6.6% current rate = \$71,290,152).
- 5.0% annual growth of taxable wholesale sales of moist snuff tobacco under current law.
- Taxable wholesale sales are estimated to be \$78,597,400 for FY07-08 under current law $(\$71,290,152 \times 105\%) \times 105\% = \$78,597,393$.
- The average wholesale price for a standard 1.2 ounce canister of moist snuff tobacco is estimated to be \$3.00 before retailer markup and any applicable sales tax.
- The average number of canisters sold in Tennessee is estimated to be 26,200,000 per year $(\$78,597,400 \text{ wholesale sales} \div \$3.00 \text{ average wholesale price} = 26,199,133 \text{ canisters})$.
- The number of ounces sold in Tennessee is estimated to be 31,440,000 per year $(26,200,000 \text{ canisters} \times 1.2 \text{ ounces per canister} = 31,440,000 \text{ ounces})$.
- The proposed excise tax is estimated to generate approximately \$9,432,000 per year $(31,440,000 \text{ ounces} \times \$0.30 \text{ tax per ounce} = \$9,432,000)$. 100% of these funds will be earmarked to the Department of Agriculture.
- State and local government sales tax is computed on the final retail sale (including any additional excise tax).
- Current state sales tax rate is 7.0%.
- Incremental state sales tax is estimated to be \$660,000 per year $(\$9,432,000 \times 7.0\% \text{ state rate} = \$660,240)$.
- Local governments receive a 4.5925% share (or \$30,000) of state sales tax revenue $(\$660,000 \times 4.5925\% \text{ share} = \$30,310)$.
- The net increase of state sales tax revenue is estimated to be \$630,000 per year $(\$660,000 - \$30,000 \text{ local share} = \$630,000)$.
- The \$630,000 in state sales tax will be apportioned as follows: \$192,000 to the General Fund, \$430,000 to the Education Fund, \$2,000 to the Department of Revenue, and \$6,000 to the Sinking Fund.
- The total net increase to state revenues is estimated to be \$10,062,000 per year $(\$9,432,000 \text{ from excise tax} + \$630,000 \text{ from sales tax} = \$10,062,000)$.
- The local option sales tax rate is estimated to average 2.25%.

- The increase to local option sales tax revenues is estimated to be \$212,000 per year ($\$9,432,000 \times 2.25\%$ local rate = \$212,220).
- The net increase to local government revenues is estimated to be \$242,000 per year (\$212,000 local option tax + \$30,000 state-shared tax = \$242,000).
- Quantity demanded remains relatively constant (any decrease of quantity demanded as a result of the proposed tax is offset by an increase of quantity demanded as a result of population growth).
- According to DOR, this bill would require the affixing of tax stamps onto moist snuff canisters much like the tax stamps affixed to packs of cigarettes.
- According to DOR, the cost to the department for tax stamps would be \$29,500 for every 500,000 tax stamps (5.9 cents each).
- The recurring increase to state expenditures for tax stamps is estimated to be \$1,546,000 per year (26,200,000 canisters \times \$0.059 tax stamp cost = \$1,545,800).
- The one-time increase to state expenditures for computer and software enhancements is estimated to be \$24,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible.

James W. White, Executive Director